

This report is designed to provide an overview of the key factors affecting the role of the United States in the Uruguay Round of multilateral trade negotiations and to examine how these talks may influence domestic policy choices. It surveys the role of GATT in international trade relations, placing the Uruguay Round in perspective as the most recent stage of an ongoing process of trade liberalization. It then examines the potential effects of further liberalization on four key sectors of the U.S. economy: high-technology industries, agriculture, mature industries, and services. A study of these sectors shows some of the constraints upon the U.S. negotiating team. Some sectors may gain, and others may lose during multilateral negotiations. These distributional consequences of multilateral trade policy negotiations, though, are not likely to outweigh the overall benefits to the national interest resulting from a more open world trading system.

CHAPTER II

GATT NEGOTIATIONS IN PERSPECTIVE

Every round of multilateral trade negotiations represents a milestone in an evolving process of trade policy liberalization. The agenda and procedures for a new round of talks, therefore, are based on the legacy of previous rounds. This chapter surveys the history of the General Agreement on Tariffs and Trade (GATT), concluding with an overview of the key agenda items established for the Uruguay Round.

Over the last four decades, GATT has played a key role in helping developed countries reduce significantly their tariffs on imports: the average U.S. tariff on dutiable imports has fallen from almost 60 percent following the Smoot-Hawley Tariff Act in 1930 to around 5 percent currently. Partly because of this success, though, nontariff policies have replaced tariffs as the prevalent form of protection throughout the world. Member countries have not provided GATT with the tools to liberalize nontariff barriers to trade. This often reflects fundamental disagreements among key governments over what are acceptable nontariff trade policies--disagreements that are aggravated because many controversial nontariff barriers are directly linked to national policy packages aimed primarily at domestic instead of international policy goals. Whether the Uruguay Round can successfully prod governments to reduce such barriers depends fundamentally on the willingness of key governments, including some advanced developing countries, to reform national policies that are harmful to international trade.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

GATT is both a multilateral agreement (the General Agreement) and a corresponding international organization (the GATT Secretariat). Currently 93 countries, accounting for over four-fifths of world trade, are members of GATT, and another 31 countries abide by its rules. ^{1/}

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1. The Soviet Union, Taiwan, and the Peoples Republic of China are the only major trading countries that are not members of GATT. The Peoples Republic has applied for membership and will be allowed to participate on an equal basis in the Uruguay Round. A recent application by the Soviet Union was rejected by GATT.



The General Agreement--including not only the original articles but additions to them, as well as a number of protocols and the tariff schedules of each member country--is a legal document that spells out the underlying principles and operating rules agreed upon by the contracting parties to regulate their conduct of trade policy.^{2/} Encouraging growth in international trade based on economic factors rather than on government policies is the unifying premise of the General Agreement. The GATT Secretariat, which acts on behalf of the contracting parties and their Council of Representatives, helps to administer the General Agreement by sponsoring multi-lateral trade negotiations, by monitoring trade flows and trade policies, and by hosting consultations to help countries resolve trade disputes.

GATT has little independent power. Rather, it provides a forum in which governments can reconcile trade policy conflicts, as well as a set of principles that the members have agreed to be mutually beneficial. It plays a passive role, reinforcing the desires of its members but rarely initiating action. When member governments agree on the need for policy reform, GATT helps facilitate the reform. But GATT cannot coerce countries to change their policies against their will. Member countries have yet to agree to yield sovereignty over national policy actions to an international body.

Although the General Agreement clearly states certain general principles, so many exceptions are allowed in qualifying articles that a wide-range of policy actions--many of them contradicting the spirit, if not the letter, of the GATT principles--can be justified. GATT enforcement procedures rely mainly on suasion, ultimately depending on good faith and the fear of retaliation.^{3/}

The Origin of GATT

GATT originated in 1947 as a relatively minor element of an ambitious post-war plan to promote peace and economic well-being by limiting political and economic tensions among countries. The World Bank and the International

2. See Kenneth W. Dam, *The GATT: Law and International Economic Organization* (Chicago: University of Chicago Press, 1970), for a detailed examination of the General Agreement.

3. Reciprocity, a cornerstone of GATT, is double edged--one country can offer a trade policy concession in return for an equivalent concession by its trading partner, or a country can implement a trade barrier in retaliation for an increase in another country's trade barriers. GATT has been much more successful in encouraging the former than in discouraging the latter.

Monetary Fund were designed to address developmental and international monetary problems. An International Trade Organization (ITO) was proposed to regulate trade relations among countries and to encourage trade liberalization. The General Agreement was devised as a provisional document to hasten the start of multilateral tariff negotiations while the relevant governments were ratifying the ITO charter. Despite the support of President Truman, however, the charter encountered opposition in the U.S. Congress and failed to win enough votes for ratification. But Congressional approval was not required for the General Agreement, which Truman approved through an Executive Agreement. Most of the ITO charter dealing with commercial trade policy was incorporated into the General Agreement, and it has remained the internationally accepted standard for the conduct of trade policy.

As a weak substitute for the envisioned ITO, a GATT Secretariat, with a very small staff, was created to oversee the General Agreement and to manage multilateral trade negotiations. Since this modest inception, the prestige and responsibility of the GATT Secretariat (now consisting of over 300 employees) has grown steadily as it has led the drive to liberalize trade policies.

Fundamental Principles of the General Agreement

Literally, the General Agreement is a detailed legal document that defines the responsibilities and operating rules agreed upon by member governments to guide their conduct of international trade relations (see box). As stated in its preamble, the goal of the General Agreement is to raise living standards through "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce."

Four key principles underlie the General Agreement:

- o Member countries should work to lower trade barriers in general, and to eliminate the use of quotas in particular.
- o Any barrier to trade should be applied on a nondiscriminatory basis to all member countries (most-favored-nation treatment).
- o Once a tariff concession is made, it cannot later be rescinded without compensating affected trade partners. Also, other forms of protection cannot be employed to circumvent the effect of the concession.

THE GENERAL AGREEMENT IN BRIEF

The Preamble of the General Agreement proposes to raise living standards by reducing trade barriers and, in particular, by eliminating discriminatory trade practices. Part I states the basic principle of nondiscrimination and legally binds members to comply with their tariff concessions. Part II calls for the elimination of nontariff barriers, subject to several qualifications. Part III contains procedural rules, most importantly condoning the formation of free trade areas. Part IV, added in 1965, addresses the special needs of the developing countries.

Part I

MFN. Article I provides that a tariff on an imported product should be applied equally to all members. This affirmation of nondiscrimination is called most-favored-nation (MFN) treatment.

Binding tariff schedules. Article II legally binds members to their tariff concessions. It states that tariffs should not be increased above the rates in each country's tariff schedule.

Part II

National treatment. Article III prohibits members from circumventing tariff concessions by employing nontariff policies to offset the effect of a tariff reduction. National treatment requires that internal taxes apply equally to domestic and imported products and that regulations treat imported goods "no less favorably" than similar domestic goods.

Customs regulations. Articles V and VII through X curb customs procedures that impede imports. Such activities include rules of transit (article V), customs valuation (article VII), customs fees and formalities (article VIII), and marks of origin (article IX). Article X states that all laws and regulations regarding trade should be formulated and applied in a transparent manner, which requires public disclosure and the uniform and impartial administration of trade laws.

Antidumping and countervailing duties. Article VI defines dumping, states that both dumping and injury to domestic producers must be proved in order to merit an antidumping duty remedy, and specifies that antidumping duties should not exceed the dumping margin. It provides similar rules for the countervailing duty remedy to offset foreign government subsidies.

Quantitative restrictions. Article XI calls for the general elimination of quantitative restrictions (QRs) to trade, subject to several qualifications. Most importantly, QRs can be used to safeguard the balance of payments (article XII) and to provide temporary escape clause relief for domestic industries (article XIX). Developing countries can also use QRs to further developmental goals (article XVIII and Part IV). Article XIII states that QRs, when employed, must be applied on a nondiscriminatory basis, with some exceptions listed in article XIV. Article XV regulates the use of currency controls to evade QR restrictions, and coordinates GATT and IMF interests during balance-of-payments emergencies.

Part II
(Continued)

Subsidies. Article XVI discourages the use of subsidies in general, and calls for the elimination of export subsidies for nonprimary products in particular. Export subsidies for primary products should not cause a country to achieve more than an equitable share of world export trade in that product.

State-owned enterprises. Article XVII asserts that state-owned enterprises should choose among potential buyers and sellers according to normal business considerations, especially in terms of prices, quality, and procurement.

Government assistance in developing countries. Article XVIII affords developing countries exemptions to most of the requirements of the General Agreement, subject to rigorous criteria. Because of its strict standards, these exemptions have rarely been employed. Instead, developing countries have justified their use of policies such as nontariff barriers and export subsidies as safeguards for balance-of-payments problems.

Escape clause and other exceptions. Articles XIX through XXI provide additional exceptions to the general rules. Article XIX, the escape clause, allows countries to protect, through withdrawal of concessions or other measures, domestic producers from injury resulting from increases in imports. Articles XX and XXI identify other essentially noneconomic justifications for trade restrictions, such as for national security protection.

Consultation and dispute settlement. Articles XXII and XXIII lay out the dispute settlement process of GATT. Consultation between countries is emphasized, but panels of experts can also be asked to review cases on a nonbinding basis.

Part III

Procedural issues. Procedural and other administrative matters are taken up in articles XXIV through XXXV. Most notably: article XXIV addresses how free trade areas are to be established; article XXVIII sets rules for modifying tariff schedules, including a call for periodic tariff negotiations; and article XXXIII establishes criteria for accession of new members.

Part IV

Trade and development--treatment of developing countries. Article XXXVI acknowledges the special problems confronted by developing countries, and states that developed countries should not expect reciprocity from developing countries. Article XXXVII contains a statement of the intent of developed countries to encourage developing country exports by unilaterally lowering trade barriers, and article XXXVIII includes encouragement to stabilize and improve market conditions for primary products.

Sources: General Agreement on Tariffs and Trade; International Trade Commission; and Congressional Budget Office.

- o Trade conflicts should be settled by consultation whenever possible, using as a guide a set of codified and mutually accepted rules for the conduct of trade.

Trade Liberalization and the Elimination of Quotas. The General Agreement has always championed an open trading system. Consequently, it has favored tariffs over quotas, and has sought to reduce tariffs over time. Quotas are discouraged for two reasons: by limiting import quantities, their protective effect can vary as market conditions change; and their impact on prices cannot be directly observed. Their lack of "transparency" makes it difficult to measure the protective impact of a quota and to compare its effect with trade policies applied in other sectors or countries.

Most-Favored-Nation Treatment. Tariffs, or any other form of protection, should be applied on a nondiscriminatory basis across all member countries. Each country should be treated as a "most-favored nation." Nondiscrimination insures that imports will be supplied at the lowest cost by the most competitive foreign suppliers. If domestic suppliers must be protected from foreign competition, the form of that protection should not introduce additional distortions to trade. Discrimination may lead to wasteful trade diversion; it also complicates trade negotiations and enhances the possibility of retaliation.^{4/} Unconditional most-favored-nation treatment reflects the ideal of full nondiscriminatory treatment of all import suppliers. It precludes bilateral and preferential agreements that favor one or a group of countries.

Insuring the Integrity of Tariff Concessions. To legitimize trade negotiations, governments must not be able to circumvent the effect of tariff reductions they have agreed to during reciprocal bargaining. The General Agreement confronts this in two ways. First, during tariff negotiations, countries promise to bind tariff rates for particular products at a certain level--that is, promising not to increase those tariff rates in the future. If a country decides to increase a tariff above the bound rate, it must notify GATT and is liable for compensation to affected trading partners. Second, no other type of government policy can be employed to offset the impact of

4. A policy is trade diverting if, in favoring one country over another, it diverts trade from low-cost to higher-cost producers. Under competitive conditions, consumers in the home market are not affected by trade diversion in the short run since landed import prices remain the same, but resources are misallocated, inhibiting worldwide growth in the long run. Where policies stimulate trade, policies can be trade creating, improving both resource allocation and consumer benefits. Trade suppression results when policies reduce total trade flows, injuring consumers and misallocating resources.

the concession. The General Agreement requires national treatment of imported goods, meaning that a country's internal taxes must be applied equally to both imports and domestic goods and that its regulations must treat imports "no less favorably" than similar domestic products. Additionally, the General Agreement discourages the dilution of another country's tariff schedule by the use of government subsidies or through actions by private firms (dumping) that cause exports to be sold at less than normal prices. Effectively, countries are not allowed to gain through export subsidies or nontariff barriers to imports what they could not gain through tariff negotiations.

Dispute Settlement. GATT plays a passive enforcement role, relying primarily on the good faith of its members to abide by its rules. Instead of actively policing compliance, GATT responds only to complaints initiated by members. When trade policy disputes arise, the GATT dispute settlement process encourages members to employ consultation procedures to reconcile the problem among themselves, using GATT rules as a guideline. If consultation fails, disputants have the right to call together a panel of third-party representatives for a ruling on the case. Although the panel ruling is not legally binding, it can be made binding if approved by the GATT Council. If all else fails, a party can submit an argument to the GATT Council for approval of retaliatory action. GATT Council approval of rulings and retaliatory actions requires a unanimous vote. As a result, any ruling or retaliatory action can be vetoed by any party to a dispute. Thus, there is currently no coercive enforcement mechanism short of sanctioned retaliation, and even this can be vetoed by the offending party.^{5/}

Exceptions to the Principles of the General Agreement

As in any general body of rules, some exceptions are needed to handle special circumstances. When the General Agreement was conceived in 1947, exceptions to the basic principles were made to allow countries to join GATT without immediately negating existing domestic policies or limiting

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5. Rulings by GATT, although generally not enforceable, carry some weight as citations of improper behavior. For example, GATT ruled that the U.S. program of tax relief for exports, the Domestic International Sales Corporation (DISC), violated GATT rules. Although the United States refused to acknowledge the validity of the GATT ruling, after a long process it replaced DISC with a new program - the Foreign Sales Corporation (FSC) - that conforms with GATT. For a detailed discussion of the history and structure of the FSC, see Joint Committee on Taxation, *General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984* (December 31, 1984), pp. 1037-1070.



key future policy options. Several additional exceptions have been added. These exceptions have now become so numerous and broad-reaching that, in practice, few trade policy targets are hindered by the General Agreement.^{6/}

Exceptions to the Trade Liberalization Principle. GATT's goal of trade liberalization in general and the elimination of quotas in particular is limited to trade in manufactured goods, excluding textiles and apparel, among developed countries that do not have serious balance-of-payments problems and in industries where imports do not cause serious injury to domestic producers. Various national policies with foreign trade ramifications, such as health and safety regulations, and policies justified by national security interests, are also excepted.

Trade coverage is limited because the General Agreement does not cover trade in services and intellectual property, nor trade related to foreign investment regulations and performance requirements. The General Agreement, weakened by a 1955 waiver that permitted broad U.S. agricultural import quotas, allows nontariff barriers for many primary products. Additionally, a multilateral system of import quotas on textiles and apparel trade (the Multifiber Arrangement) has been permitted, and voluntary export restraints and orderly marketing agreements are not formally covered. Developing countries are excluded from most of the rigor of the GATT principles in recognition of their special need to fashion self-serving policies that may speed development. Safeguards permit the use of quantitative restrictions during balance-of-payments emergencies and for temporary protection of sectors that have been seriously injured by increases in imports (the escape clause).^{7/}

Exceptions to the Most-Favored-Nation Principle. The General Agreement sanctioned discriminatory actions by permitting countries to continue colonial preference schemes that existed before GATT's establishment; to

6. As explained in more detail later in this chapter, codes of conduct were established during the Tokyo Round to fortify GATT rules and procedures for several types of nontariff policies. In practice, though, these codes have not significantly strengthened GATT's role.
7. Safeguards were established initially to accommodate the widespread use of these policies following World War II. Except for the United States, quotas were used liberally to conserve and allocate foreign exchange during postwar balance-of-payments emergencies. The escape clause was included mainly at U.S. insistence, since U.S. law required the government to show that tariff concessions would not cause serious injury to domestic producers.

develop programs for preferential tariff treatment for developing countries (such as the Generalized System of Preferences in the United States); and to form free-trade areas or customs unions such as the European Economic Community. The Multifiber Arrangement uses bilateral quotas rather than a nondiscriminatory global import quota. In addition, the safeguard actions mentioned above often employ discriminatory remedies, as exemplified by the recent rash of voluntary export restraints and orderly marketing agreements applied by several countries, especially the United States.^{8/}

Exceptions to Defending the Integrity of Tariff Concessions. GATT's weak restrictions on subsidies and other nontariff barriers allow countries to offset the effects of tariff concessions. Increasingly, escape clauses and unfair trade actions are used to this end.

Ineffective Dispute Settlement Procedures. GATT's enforcement procedures lack clout. It has very limited authority to penalize governments that break the rules. Moreover, its dispute settlement procedures are notoriously slow, often taking several years for a final, yet still nonbinding, ruling. When good-faith compliance to GATT rules fails, it is the threat of retaliation, not the GATT dispute settlement process, that looms as the main restraint to abuse.^{9/}

Rules, Procedures, and Nontariff Barriers

As Kenneth Dam has pointed out, an effective body of law is more than "a set of substantive rules. It is also a set of procedures, adapted to the subject matter and designed to resolve disputes that cannot be foreseen at the moment when those procedures are established."^{10/} For a legal system to be

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8. The United States has recently negotiated voluntary export restraints (VERs) for steel, autos, and machine tools. Orderly marketing arrangements (OMAs) were used by the United States during the 1970s for non-rubber footwear and televisions. Although not all of these policies were directly related to a safeguard action, each policy did set different quota limits for different countries. Many European countries have also employed these types of policies; most notably, many European countries have a VER on automobiles with Japan. VERs and OMAs as trade policy options are not currently covered by GATT rules, but they clearly violate the spirit of the GATT principles.
 9. For a more thorough examination of this issue, see U.S. International Trade Commission, *Review of the Effectiveness of Trade Dispute Settlement Under the GATT and the Tokyo Round Agreements*, Publication 1793 (Washington, D.C., December 1985).
 10. Kenneth W. Dam, *The GATT: Law and International Economic Organization*, p. 4.

effective, rules and procedures must be compatible, and adaptable to circumstances. Strong rules limit procedural flexibility, but weak rules that vaguely differentiate permissible activities hamper the most vigilant enforcement efforts.

The General Agreement is not a set of strong, substantive rules and viable enforcement procedures. Rather, it provides a loose conceptual and procedural framework that encourages countries to identify common interests so they will have a basis for entering into mutually advantageous agreements. In retrospect, a weak but flexible GATT has proved quite successful in promoting tariff reduction and integrating a broad range of countries into the world trading system. At the same time, frustration has mounted over the inability of GATT to control nontariff barriers (NTBs), which are replacing tariffs as the primary mode of protection.

Nontariff barriers introduce a number of new problems for GATT. They are inherently less transparent than tariffs, making it harder to identify those government policies that restrain trade. Even when NTBs are applied in a straightforward manner, as in the case of import quotas, their protective impact cannot be measured directly. To make NTBs more transparent, it will be necessary to develop common techniques for reporting and quantifying NTBs that are consistently applicable across products, countries, and types of trade policies.^{11/} Before liberalization of NTBs can even be addressed, considerable effort will be needed just to place them on a commonly accepted tariff equivalent basis. Transparency can be achieved most quickly by converting all nontariff barriers to ad valorem tariffs (or in some cases by auctioning the quota rights).^{12/}

Rules must also be developed, and adapted over time, to delineate national policies that constitute nonpermissible trade barriers. This task is complicated by several factors. As economies become increasingly open to international influences, a broader range of national economic policies influence foreign trade flows. But most countries do not want to invite international scrutiny of what they consider to be domestic policies. Moreover,

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11. As examined more fully in the chapter on agriculture, producer and consumer subsidy equivalents have been estimated for many countries' nontariff agricultural policies in an attempt to achieve greater transparency.
 12. See Everett M. Ehrlich and Raymond C. Scheppach, *New Directions in Economic Policy: An Agenda for the 1980s* (New York: Praeger, 1984), pp. 183-188, for an overview of the role of transparency in the trade liberalization process.

many regulations that affect trade, especially those related to services, are controlled not by national governments but by state, local or provincial governments. Defining "fair trade," then, places a premium on rules. Without more concrete rules, cheating cannot be well defined and therefore cannot easily be corrected.

But even the most precise rules must be backed by suitable enforcement procedures and penalties to be effective. Otherwise the principal sanction will be the threat of retaliation, which inherently favors the strong over the weak. Current GATT procedures have not dealt adequately with enforcement of NTB rules. Designing more effective enforcement procedures will be complicated by the lack of transparency inherent to NTBs and because strong international enforcement ultimately infringes on national control over key policy actions. Thus, a major focus of the Uruguay Round will be the difficult task of sharpening and extending GATT rules and procedures that deal with a wide array of nontariff barriers.

PREVIOUS ROUNDS: STAGE-BY-STAGE LIBERALIZATION

The Uruguay Round is the eighth GATT-sponsored multilateral trade negotiation since World War II and the first since the conclusion of the Tokyo Round in 1979. Previous negotiations produced steady, if rarely dramatic, progress toward the goal of trade liberalization. Over time, import tariffs in developed countries have been significantly reduced and initial attempts have been made to regulate the use of nontariff barriers. The agenda for the Uruguay Round reflects the accomplishments, and failures, of these previous rounds.

The Early Rounds

The Smoot-Hawley Tariff Code of 1930 raised the average tariff rate on U.S. dutiable imports to almost 60 percent (Table 1).^{13/} Most major U.S. trading partners quickly retaliated by raising their own tariffs, further stifling world trade. With the change in administration in 1933, the United States reversed policies. The Reciprocal Trade Agreements Act of 1934 broke new ground by shifting most authority over tariffs from the Congress

13. For a good overview of U.S. trade policy through the Kennedy Round, see John W. Evans, *The Kennedy Round in American Trade Policy: The Twilight of the GATT?* (Cambridge: Harvard University Press, 1971).



TABLE 1. U.S. TARIFF RATES, 1789 THROUGH 1984
(In millions of dollars and percentages)

Year	Imports	Percent Duty-Free	Calculated Duties	Ratio of Calculated Duties ^a /		
				Total Imports	Dutiable Imports	Federal Revenue
1789-						
1791	n.a.	n.a.	4	n.a.	n.a.	99.5
1800	91	n.a.	9	9.9	n.a.	83.7
1810	85	n.a.	9	10.6	n.a.	91.5
1820	74	n.a.	15	20.3	n.a.	83.9
1830	50	8.0	28	57.3	61.7	88.2
1840	86	48.8	15	17.6	34.4	69.3
1850	164	9.8	40	24.5	27.1	91.0
1860	336	20.2	53	15.7	19.7	94.9
1870	426	4.7	192	44.9	47.1	47.3
1880	628	33.1	183	29.1	43.5	55.9
1890	766	33.7	227	29.6	44.6	57.0
1900	831	44.2	229	27.6	49.5	41.1
1910	1,547	49.2	327	21.1	41.6	49.4
1915	1,648	49.2	206	12.5	33.5	30.1
1920	5,102	61.1	326	6.4	16.4	4.8
1925	4,176	64.9	552	13.2	37.6	14.5
1930	3,114	66.8	462	14.8	44.7	14.1
1932	1,325	66.9	260	19.6	59.1	16.3
1935	2,039	59.1	357	17.5	42.9	9.0
1940	2,541	64.9	318	12.5	35.6	5.9
1945	4,098	67.1	381	9.3	28.2	0.7
1950	8,743	54.5	522	6.0	13.1	1.0
1955	11,337	53.3	633	5.6	12.0	0.9
1960	14,650	39.5	1,084	7.4	12.2	1.2
1965	21,283	34.9	1,643	7.7	11.9	1.2
1970	39,756	34.9	2,584	6.5	9.9	1.2
1975	96,516	32.2	3,780	3.9	5.8	1.3
1980	244,007	43.8	7,535	3.1	5.7	1.4
1984	322,990	31.9	12,042	3.7	5.5	1.4

SOURCE: Stephen L. Lande and Craig VanGrasstek, *The Trade and Tariff Act of 1984: Trade Policy in the Reagan Administration* (New York: Lexington Books, 1986), p. 4; adapted from Bureau of the Census, *Statistical Abstract of the United States* (various editions).

n.a. = not available.

a. Trade-weighted average tariff rates can change not only because of changes in tariff policy, but also as the composition of imports shifts among products with different tariff rates and as inflation lowers the ad valorem equivalent rate of specific tariffs. Also, trade-weighted averages of tariffs are biased downward because trade flows tend to be lower where the protective effect of a tariff is highest.

to the President, who was authorized to cut most rates by up to 50 percent in exchange for reciprocal cuts by major trading partners. All tariff cuts were to be extended on a "most-favored-nation" basis. The Presidential authority was limited, though, by an agreement with the Congress to negotiate tariff cuts on a product-by-product basis, with no tariff to be cut if this threatened serious injury to a domestic industry. Over the next 11 years, a series of bilateral negotiations with major U.S. trading partners succeeded in reducing the average Smoot-Hawley tariff by about one-third.

The first GATT-sponsored multilateral trade negotiation (MTN) convened in 1947. Although most of the negotiations remained bilateral and product-by-product in nature, the interplay among the many partners resulted in significant further reductions in tariffs.^{14/} On average, the existing U.S. tariff structure (scheduled rates) was cut by about one-third (see Table 2, which includes only the impact of various negotiations on scheduled tariff rates). By 1950, the average tariff on dutiable imports had fallen by about 75 percent compared to Smoot-Hawley tariff levels (see Table 1, which includes the impact of all factors on average realized tariff rates). Although much of this drop can be attributed to the various tariff negotiations, changes in the composition of imports and the impact of inflation on specific tariffs also helped to lower realized tariff rates over this period.

The Kennedy Round

GATT sponsored four more MTNs over the next 15 years. Little additional tariff reduction was accomplished during this period, partly because of political pressures in the United States against further cuts, but also because considerable energy was spent on forming the European Community (EC) and integrating it into the world trading system. Significant progress

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14. In these early negotiations, the United States generally made larger cuts than did its trading partners. Often, the main concessions by others were to bind their rates at then current levels, rather than reducing them. The United States accepted this as reciprocal treatment because many U.S. tariffs were considerably higher than those of its trading partners at the time. In fact, in many cases, U.S. tariffs were so high that reductions had little impact on trade flows. Since the United States ran a trade surplus in almost every major industrial sector following World War II, it had little to lose and much to gain in both economic and political terms by encouraging worldwide trade and economic growth. The lack of a strong leader in the current international political environment may retard liberalization efforts. See Robert E. Baldwin, "The Changing Nature of U.S. Trade Policy since World War II," in Robert E. Baldwin and Anne O. Krueger, eds., *The Structure and Evolution of Recent U.S. Trade Policy* (Chicago: University of Chicago Press, 1984).



TABLE 2. DUTY REDUCTIONS SINCE 1934 UNDER
THE U.S. TRADE AGREEMENTS PROGRAM
(In percents)

GATT Conference	Proportion of Dutiable Imports Subjected to Reductions	Average Cut in Reduced Tariffs	Average Cut in All Duties	Remaining Duties as a Proportion of 1930 Tariffs ^{a/}
Pre-GATT, 1934-1947	63.9	44.0	33.2	66.8
First Round, Geneva, 1947	53.6	35.0	21.1	52.7
Second Round, Annecy, 1949	5.6	35.1	1.9	51.7
Third Round, Torquay, 1950-1951	11.7	26.0	3.0	50.1
Fourth Round, Geneva, 1955-1956	16.0	15.6	3.5	48.9
Dillon Round, Geneva, 1961-1962	20.0	12.0	2.4	47.7
Kennedy Round, Geneva, 1964-1967	79.2	45.5	36.0	30.5
Tokyo Round, 1974-1979	n.a.	n.a.	29.6	21.2

SOURCE: Real Phillippe Lavergne, *The Political Economy of U.S. Tariffs* (Ph.D. thesis, University of Toronto, 1981).

n.a. = not available.

a. These percentages do not take account of the effects of either structural changes in trade or of inflation on the average tariff level.